

EXHIBIT 3

RETENTION REALLOCATION EXECUTIVE SUMMARY

Blue Cross and Blue Shield of Michigan (BCBSM) has revised its pricing methodologies for self-funded plans to address operational inefficiencies, promote customer satisfaction and respond to competitive demands. Effective with 10/93 renewals, retention elements considered BCBSM business costs will be reflected in hospital claim costs. These retention elements include risk/contingency charges, appropriate subsidies and/or surcharges and expenses associated with managing our provider networks. Movement towards this new practice addresses two critical problems that has plagued BCBSM for many years.

SUBSIDIES AND SURCHARGES

In the late 1980's, BCBSM began charging to customers various surcharges and subsidies in conjunction with Public Act 350 and corporate business philosophies. Plan Wide Viability was introduced in 1988 with the goal of increasing BCBSM's corporate reserves to the level required by statute. The OTG subsidy and Group Retiree Surcharge were introduced in 1987 and 1988, respectively, and was intended to help defray costs incurred by senior citizens purchasing a direct pay policy. The billing of these amounts to customers was an add-on to the bill, highlighted for all to see and independent of rating formulas and renewal periods. By employing this process, BCBSM has been its own worst enemy as customers and BCBSM personnel alike have expressed several problems with this methodology. Included in the list of problems are the following issues:

1. Operational inefficiencies associated with the mass mailings to all customers whenever subsidy amounts changed.
2. Compromising BCBSM's 12 month rate guarantee policy by changing, without regard to renewal date, rates whenever subsidy amounts changed.
3. Refusal to pay subsidies on the part of many ASC customers.

Saddled with these issues, it has been an every day challenge to maintain positive customer relationships.

ADMINISTRATIVE FEES

The advent of self-funding as an alternative to insured programs has highlighted administrative fees as a cost and a concern to customers purchasing a BCBSM ASC plan. Citing BCBSM's high costs, many customers have complained and have threatened to leave if relief was not provided. Indeed, some customers have cancelled BCBSM coverage for this reason. Many arguments have been presented to customers dissatisfied with our administrative costs. The costs of managing a network of hospitals and doctors as large as the Blue network, focusing on total costs and not just the small percentage reflective of administrative costs and the wide range of services provided by BCBSM have all been used at various stages to address case specific concerns. These arguments have been met with moderate success.

It is apparent that a solution to these two critical issues must tap into our strengths, the savings realized by our contracts with hospitals and physicians, while addressing the problems cited above.

RECOMMENDATION

Reflecting certain BCBSM business costs in hospital claim costs will provide long-term relief to the problems detailed above and will also satisfy short-term objectives of enhancing customer relationships while cutting operational costs. Inclusion of these costs in our hospital claim costs is actually more reflective of the actual savings passed on to customers as it will now include the hospital savings net of the costs incurred to provide these savings. This will also improve our operational efficiencies since mass mailings for subsidy amount changes will no longer be necessary. Changes to these costs will be inherent in the system and no longer visible to the customer. The same argument applies to risk charges and provider related expenses. Finally, the resulting administrative costs charged to customers will hopefully line up better with competitor fees as the other elements of our current retention have now been included in our claim payments.

This package of information will help you better understand and explain this modification, as well as communicate to you changes in rating procedure.

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